



An Ineffective Strategy

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Quite possibly the weirdest economic/financial story in decades is playing out in the normally sleepy U.S. Treasury bond market, where America's Treasury Department is aggressively buying the bonds that the U.S. Treasury is issuing.

Yes, you read that right. And the objective of all this might sound even stranger: the Treasury Department's goal is to fight the normal market forces that drive bond rates higher or lower depending on the long-term outlook of millions of buyers. It can remind one of an ancient legend where the Greek demi-god Achilles shakes his fist at the Sun and threatens it with his bow and arrow.

Specifically, Scott Bessent, the U.S. Treasury Secretary, decided that in the next few months, the government will buy back \$4 billion of the long-term bonds it is issuing. Having a giant buyer intercede in the markets should, theoretically, cause long-term rates to go down, which, among other things, would incrementally reduce the amount of interest payments that the government has to pay on its (get ready for it) \$40 trillion aggregate debt load. Even tiny falls in the yield can cut hundreds of billions from the roughly \$1 trillion annual interest that the government is now paying on its debt obligations.

Another goal would be to reduce borrowing costs for companies and individuals who are, for example, taking out mortgage loans. Mortgage rates are generally set to track 10-year Treasury rates, which recently spiked up to 4.70%—the highest rate since 2007. Lower borrowing costs generally stimulate economic activity, which is good for consumers and the markets.

Did the buyback strategy work? After the announcement, long Treasury bond yields fell about nine hundredths of a percent—for two days. Then the yields popped back up above where they had been before the intervention. This was not impossible to predict: remember Hercules and the Sun and imagine who was destined to win that fight. In this analogy, Hercules had a \$4 billion arrow, barking up at a total long Treasury market of \$32 trillion. The market intervention represents one dollar for every 8,000 outstanding.

Meanwhile, you might wonder: where does the U.S. Treasury get the money to buy its own bonds? Doesn't the money have to come from somewhere? Indeed it does: the U.S. issues short-term bonds to cover the cost of the purchases. The U.S. is basically trading a long-term liability—30-year bonds—for a short-term liability. In other words, it is taking 30-year bonds off the market and replacing them with short-term T-bills. Some economists compare this strategy to paying your home mortgage with your credit card.

Bessent has said that he is open to increasing the scale of the intervention, which could get messy long before it becomes effective. Meanwhile, every month, older Treasuries mature at rates below 2%, and have to be replaced with bonds at current market rates closer to 4.7%. And roughly a third of America's outstanding debt—before any more shifting of maturities—comes due within a year. The Treasury Secretary's recent action might be telling us that the government thinks the debt situation is becoming unstable. That implied message is likely to cause all the millions of Treasury market buyers to grow uneasy, and demand still-higher yields, resulting in the rest of us having to pay higher in borrowing costs, and potentially reducing economic growth overall.

In other words, the reverse of what was intended.

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